

The Regional Municipality of York

Committee of the Whole
Finance and Administration
November 11, 2021

Report of the Commissioner of Finance

Temporary Borrowing Authorization for 2022

1. Recommendations

1. The Commissioner of Finance and Regional Treasurer be authorized to obtain temporary borrowing during 2022 from either external financing or by means of temporary loans from reserves and reserve funds for the following amounts and purposes:
 - a. Up to \$545 million to fund operating expenditures pending receipt of tax levies and other revenues
 - b. Up to \$300 million to fund capital expenditures until such time as long-term financing is in place
2. The Regional Chair and Commissioner of Finance and Regional Treasurer be authorized to execute the necessary documents.
3. The Regional Solicitor be authorized to prepare the necessary bylaws.

2. Summary

This report seeks authorization for temporary borrowing, if and when required, to meet capital and operating expenditures during 2022. The *Municipal Act, 2001 (Act)*, requires authorization for a temporary borrowing bylaw for each calendar year.

Key Points:

- Provincial legislation allows municipalities to borrow on a temporary basis
- The borrowing limit for operating expenditures is \$1,089 million for first nine months and \$545 million for last three months of the year
- This report seeks authorization for up to \$545 million for 2022, which is less than the upper permissible limit for the first nine months but equal to the permissible limit for the last three months of the year
- Temporary borrowing does not have a direct impact on the Region's credit rating

3. Background

Provincial legislation allows municipalities to borrow on a temporary basis

The Commissioner of Finance and Regional Treasurer may engage in temporary borrowing from time to time to fund the operational and capital needs of the corporation prior to collection of tax levies, receipt of other revenues and issuance of debentures.

Section 407 of the Act provides the authority for temporary borrowing for approved operational expenditures until tax levies and other revenues are received. The borrowing may also include amounts required for principal and interest payments on debt and required payments to local boards.

Provincial legislation limits the amount that can be temporarily borrowed for operating purposes to 50% of budgeted total estimated revenue from January to September and 25% of budgeted total estimated revenue from October to December. The limits include any temporary borrowing from previous years not yet repaid.

In addition, Section 405 of the Act provides the authority for temporary borrowing for approved capital expenditures to be financed in whole, or in part, by the issue of debentures during the year.

The Province regulates the amount of municipal debt and other financial obligations through an annual repayment limit regulation under the Act, including any temporary borrowing outstanding at the end of the year. Each year, as part of the annual update to the Regional Fiscal Strategy, Council adopts a Long-Term Debt Management Plan, the most recent being the [2021 Long-Term Debt Management Plan](#). The plan includes a multi-year projection of the Region's long-term debt and financial obligation needs and the corresponding annual repayment limit for each year. Any funds borrowed from reserves are always paid back during the year of borrowing with interest at the same rate that would have been earned on the corresponding reserves and excluded from the annual repayment limit.

4. Analysis

The Region's estimated temporary borrowing needs for 2022 are within the limit prescribed by the Province

Using the allowable 2021 revenues in the approved 2021 Regional Budget as an estimate for the allowable 2022 revenues, the Region's temporary borrowing limit for operating purposes is \$1,089 million between January and September and \$545 million between October and December. Allowable revenue includes net taxation, user charges, transfer payments, fees and services revenues and excludes development charges, third party recoveries and revenues from fines.

Staff estimate \$545 million of temporary borrowing for operating expenditures should be sufficient to meet the Region's 2022 short-term financing requirements, when used in conjunction with the Working Capital Reserve.

This amount bridges the gap between when bills need to be paid and when revenues are received.

- The estimate is based on approximately a third of the annual tax levies forecasted to be received, the monthly receipt of user charges, half of the expected amount of fees and services, and additional buffer to account for uncertainty of impacts associated with the COVID-19 emergency.
- This report seeks authorization for up to \$545 million for 2022, which is less than the upper permissible limit for the first nine months but equal to the permissible limit for the last three months of the year.

The Region's [Capital Financing and Debt Policy](#) permits temporary borrowing for both operating and capital needs from any of the following sources: reserves and reserve funds; promissory notes; bank credit facilities; bankers' acceptances and short-term advances pending issuance of long-term debentures from the Ontario Infrastructure and Lands Corporation.

For this coming year, the \$44.6 million currently available in the Working Capital Reserve and other short-term financing sources can be used to partially offset temporary borrowing needs prior to the receipt of tax, user rate revenue and fees and charges. The receipt of these revenues will be used to repay any temporary borrowing drawn for operating expenditures during the year.

The 2021 ten-year Capital Plan estimates that \$118 million of debenture issuance would be needed for 2022, however this could potentially be funded from the higher development charges collections anticipated next year. This report requests up to \$300 million of temporary borrowing for capital expenditures to provide the Region with flexibility to accommodate timing of receipt of capital revenue and unanticipated temporary shortfalls in other funding sources. Receipt of debenture proceeds along with other sources of revenue such as grants and subsidies, will be used to repay any temporary borrowing for capital expenditures during the year.

Promissory notes may be employed when it is economically advantageous to do so within the context of the Region's investment and debt management programs. It may be used for temporary borrowing for both operating and capital expenditures. During 2021, the low borrowing rates that were available in the financial markets through the use of promissory notes were below the interest rate charged on the use of reserves for temporary borrowing and those available under the loan facilities offered by the Region's bank providers. The interest rate charged on the use of reserves is the rate that would otherwise be earned by investing those reserves in the Region's investment portfolio.

Should this trend continue into 2022, the use of promissory notes rather than either liquidating reserves or utilizing bank loan facilities would be considered for some of the temporary borrowing needs. It is expected that a combination of reserves and reserve funds and short-term promissory notes, as appropriate, will be used to finance any temporary borrowing needs in 2022.

5. Financial

The cost of temporary borrowing is estimated to be up to \$1.05 million for 2022. Most of this cost is to temporarily fund capital requirements until permanent funding is in place. Operating needs tend to be shorter in nature and are mainly funded through the non-interest bearing Working Capital Reserve described above.

Temporary borrowing does not have a direct impact on the Region's credit rating, as it is based mainly on long-term debt. Although credit rating agencies consider the Region's fiscal management practices, they have not raised any concerns regarding temporary borrowing in the past.

6. Local Impact

Temporary borrowing allows capital projects to proceed throughout the Region on a timely basis. These projects provide essential capital infrastructure for residents and business in all local municipalities in York Region.

7. Conclusion

The report requests authorization for the Commissioner of Finance and Regional Treasurer to borrow up to \$545 million to fund operating expenditures and up to \$300 million to fund capital expenditures by way of temporary loans, if needed, to meet the short term funding needs of the corporation during 2022.

For more information on this report, please contact Edward Hankins, Director, Treasury Office and Deputy Treasurer, at 1-877-464-9675 ext. 71644. Accessible formats or communication supports are available upon request.



Recommended by:

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Approved for Submission:

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Chief Administrative Officer

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